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This auto-IRA retirement bill has hope if Democrats win the House
By Rob Burgess
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If Democrats retake the U.S. House of Representatives in November, a significant piece of retirement legislation could see the light of day.

However, not everyone is convinced it's the right approach.

The Automatic IRA Act of 2024, HR 7293, which proposes automatic enrollment into IRAs for most employees working for employers not currently sponsoring a retirement plan with opt-out features and auto-escalation, was introduced earlier this year by Rep. Richard Neal, D-Massachusetts. It has stalled due to Republican control of the chamber.

According to a recent Morningstar Center for Retirement & Policy Studies report, the Automatic IRA Act could improve retirement outcomes, with an aggregate average wealth ratio increase of 23.8%. (Wealth ratios are the ratio of projected wealth at retirement under a hypothetical scenario over projected wealth at retirement, assuming the status quo.)

"The SECURE 2.0 Act requires plans established after Dec. 28, 2022, to offer certain automatic enrollment and investment features, including an eligible automatic contribution arrangement with a 30- to 90-day withdrawal feature," according to an analysis by Mercer. "The bill doesn't explain how these requirements would apply to automatic contribution plans."

'Long overdue'
Spencer Look, associate director of retirement studies and co-author of the study, said the Auto IRA Act of 2024 would be helpful for retirement savers, "as it would increase both access and participation in a retirement plan."

Benjamin Simerly, founder of Lakehouse Family Wealth, in Mentor, Ohio, said making investments automatic with each paycheck "has long been the best-kept secret of financial planners nationwide."

"If you asked any financial advisor what strategy provides the best outcomes, automatic contributions is likely what most would say first," he said.

Simerly said the Automatic IRA Act of 2024 is a "long overdue" fix for a hole in the American financial landscape.

"Pensions have gone by the wayside, and nothing has stepped in to take its place in quite the same way," he said.

Daniel M. Yerger, president of MY Wealth Planners in Longmont, Colorado, said chronic undersaving remains one of the greatest threats to Americans' retirement security, and the Automatic IRA Act of 2024 would present a "meaningful nudge" toward improving it.

"I have concerns regarding the platforms or 'default' vendors that might be put into place for this type of plan as we've seen in some state-based versions of this proposal, but those concerns should represent a bump in the road, not a stop sign," he said.

Skepticism arises

One potential catch of the bill is the requirement for a "lifetime income option," said Simerly.

"While this sounds great on its face, the annuity lobby often uses this language as an excuse to cajole investors into annuities that they didn't even know they were signing up for," he said. "While they say the road to hell is paved with good intentions, these are intentions I would be happy to see become universal to employees around the country."

Joe Petry, founder and financial planner at Mayfair Financial in Kirkwood, Missouri, said the Automatic IRA Act could be a game-changer, especially for lower-income and younger workers who often miss out on early retirement savings due to the absence of employer-sponsored plans.

"Combining automatic enrollment, opt-out features and auto-escalation creates a system that nudges individuals toward consistent saving without requiring them to take proactive steps, which behavioral finance research consistently shows is highly effective," he said.

While this proposed legislation would certainly help, Petry said it isn't a panacea. Automatic enrollment and auto-escalation align well with behavioral finance principles that remove barriers to saving, such as inertia and decision fatigue, he said. But there's also the risk that employees will stick with default settings, such as low contribution rates or conservative investment allocations, which might not be optimal for their long-term goals.

"Advisors would need to play a role in educating clients about adjusting these defaults to better match their financial needs," he said.

Petry said there's concern about the potential administrative burden on small employers and the need for education about how these IRAs interact with other savings vehicles.

"I might also worry that individuals could end up with multiple small accounts without proper guidance, leading to fragmented retirement planning," he said.

"Of course, it would be helpful," said Megan Kopka, managing partner at Apprise

Wealth Management in Phoenix, Maryland. However, she said this proposal seems like a "nanny rule."

"Yes, it's better for the economy if people invest and have retirement savings, but we have the forced safety net already called Social Security," she said. "Most of us pay into it. Those who don't are usually covered by another forced plan. At some point we need to grow up and learn, and mandating personal finance in schools is probably the best way."

Jarrod Sandra, owner and financial planner at Chisholm Wealth Management in Crowley, Texas, said "this is good in theory, but as with many government initiatives, it can backfire in the real world.

"Americans need to save for retirement, and auto-enrollment features can make that part easier," he said. "I think Congress is trying to fix a problem simply, but I'm afraid it may cause additional issues."

Sandra said the auto-enrollment feature from the Secure 2.0 Act "makes sense for qualified plans because you don't have to worry about income or spousal coverage rules."

"This particular piece of legislation appears to be traditional and Roth IRA's, not qualified plans," he said. "Where I can see this being a problem is coordinating the rules with spousal coverage or income limitations. Qualified plans essentially eliminate that problem when available, but IRA's could pose an issue. I don't think the average American will pick up on this potential issue, which could cause problems."

Ross H. Cutler, president of King Tide Advisors in Palm City, Florida, said he believes the cause and the intention of the automatic enrollment into an IRA comes from a good place.

"We do have a savings problem in this country, and I think this act is a step toward solving this problem," he said.

However, the reality and execution of this process can have different results, Cutler said.

"An action based on force versus a voluntary decision can have different outcomes," he said. "I think we have taken small steps to improve the saving habits of families, and the biggest steps will come through education."

Just the beginning

In the meantime, Look said employers and employees could focus on reducing leakage, which refers to preretirement withdrawals and cash outs upon a job change.

While the Automatic IRA Act is a strong starting point, Petry said advisors often

suggest complementary measures, such as expanding access to financial literacy programs and employer-sponsored financial wellness benefits.

Petry said beyond legislation, employers can make a substantial impact by embracing financial wellness initiatives, offering retirement plan education sessions, and providing access to financial advisors.

"On the other hand, employees should be encouraged to take advantage of any available matching contributions, automate their savings increases and periodically review their investment strategies to ensure they align with their long-term goals," he said. "Ultimately, the Automatic IRA Act of 2024 represents a positive move toward improving retirement outcomes, particularly for underserved workers. However, it's just one piece of the puzzle. A multifaceted approach that includes education, advisor guidance and additional legislative incentives will be critical to fully unlocking the potential of America's retirement savings system."